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THE NATIONAL CITY BANK OF NEW YORK

1928

Economic Conditions
Governmental Finance
United States Securities

New York, November, 1928

General Business Conditions

THE year 1928 is now sufficiently far advanced to give a fair idea of its final standing with previous years in point of general production and trade. From a beginning clouded with doubt and uncertainty, the year has brought steadily improving business until it now appears likely that the aggregate physical volume of production and trade will exceed that of any previous year.

Following is a list of the more commonly known measures of business volume which appear to be headed for new high records in 1928:

Checks cashed at banks	Flour milling
Industrial use of electric power	Gasoline production
Building construction	Industrial use of rubber
Steel production	Industrial use of silk
Automobile production	Industrial use of chemicals
Agricultural implement output	Rayon production
Copper production	Cigarette production
Tin deliveries to mills	Retail trade
Cement production	Electrical appliances output
	Aeroplane production
	Motor boat output

Of particular significance is the high level of activity of the building, steel, and automobile industries. Reflecting as these industries do the activity of hundreds of dependent lines for which statistics are not available or whose figures are too small to be considered separately, their prosperity lends further emphasis to the claims of 1928 as one of the greatest years for American business.

The Agricultural Year

The year in agriculture has likewise been one of large, if not record-breaking, production. Taking the October estimate of the Department of Agriculture as giving a fairly accurate idea of final yields, total production of all crops shows an increase of 5 per cent over that of last year. Two crops, barley and white potatoes, broke all previous records, and other principal crops were generally above the average, as indicated by the following table giving for various crops the October estimate, last year's production, and the five-year average:

Production in Millions

		Indicated by condition Oct. 1, 1928	Harvested 1927	Harvested 5-yr. av. 1922-1926
Corn	bus.	2,903	2,774	2,776
Winter wheat	"	579*	553	556
Durum wheat, 4 States	"	85*	76	62
Other spr. wheat, U. S.	"	240*	243	190
All wheat	"	904*	873	807
Oats	"	1,453*	1,184	1,352
Barley	"	351*	264	192
Rye	"	43.3*	58.8	63.8
Buckwheat	"	14.8	16.0	13.7
Flaxseed	"	22.5	26.6	20.1
Rice, 5 States	"	38.8	44.3	36.3
Grain sorghums†	"	125	138	115
Sugar beets	tons	6.76	7.75	7.36‡
Potatoes, white	bus.	464	407	394
Sweet potatoes	"	78.5	93.9	81.1
Tobacco	lbs.	1,353	1,211	1,338
Beans, dry edible†	bus.	15.9	16.9	16.3
Hay, all tame	tons	92.7*	106.5	91.0

* Preliminary estimate.
† Principal producing States.
‡ Short time average.

Reflecting the large production, prices of grain crops, potatoes, and tobacco have been disappointing to producers, but taking the combination of yields and prices, the total value of all crops will apparently be close to that of 1927 which in turn was higher than that of 1926. Herewith we present a computation of the indicated value of the principal crops this year based on October 1 estimates and prices with a similar computation for October 1 last year. Crops included amounted last year to 86 per cent of the total value of all crops.

(In Millions of Dollars)

	1928	1927	Change	Percent Change
Wheat	1,088	1,154	— 66	— 5.7
Corn	2,343	2,522	—179	— 7.1
Hay	2,225	1,820	+405	+22.3
Oats	636	603	+ 33	+ 5.5
Barley	236	220	+ 16	+ 7.3
Flaxseed	48	52	— 4	— 7.7
Rye	44	60	— 16	—26.7
Rice	42	48	— 6	—12.5
Total	6,662	6,479	+183	+ 2.8
Cotton	1,379	1,377	+ 2	+ 0.1
White Potatoes	339	423	— 84	—19.9
Tobacco	107	182	— 75	—41.2
Sweet Potatoes	100	127	— 27	—21.3
Sugar	90	108	— 18	—16.7
Apples	84	61	+ 23	+37.7
Other Crops	47	59	— 12	—22.6
Total	2,146	2,337	—191	— 8.2
Grand Total	8,808	8,816	— 8	— 0.1

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Such a computation, based on prices as of a single day, can present of course but a very rough approximation of the change in the cash value of crops, and as a measure of the variation of total farm income it goes still further afield by reason of its failure to include livestock and dairy products. With the exception of wheat, most of our grain crops are fed to animals and either marketed on the hoof or in the form of animal products such as milk, butter, cheese and eggs. Hence it is of importance in estimating total agricultural income to note that cattle prices are close to the highest levels since the war, that hogs and dairy products have been higher than a year ago during the greater part of the Summer.

All in all there seems little question but that the year marks a step forward in agriculture. No more striking practical demonstration of the increased purchasing power on the farms can be had than the continued record-breaking distribution of agricultural implements. Following are comparative figures on production and sales of farm equipment during August reported to the Federal Reserve Bank of Chicago by leading manufacturers in that district.

	Per cent increase in Aug. 1928 over Aug. 1927	Companies Included
Domestic sales billed	20.5	76
Sales billed for export	33.4	42
Total sales billed	22.9	76
Production	28.8	74

Business Profits

It is true that in some lines record-breaking output has not been productive of prosperity, but rather of overburdened markets and loss of profits. Taking industry as a whole, however, this is not the case. During the first half of the year the general average of business profits was apparently slightly higher than in the first half of 1927, notwithstanding comparatively slow business in many lines during the period, and the heavy inventory losses sustained by the rubber companies in the second quarter. With the continued improvement in business during the Summer, as against the down-trend a year ago, the curve of profits has turned sharply upward and the indications are that the final totals for the year will not only exceed those of last year by a wide margin, but will closely approach, if not exceed, those of 1926, heretofore the record year.

We give below a table which compares nine months' earnings for this year with corresponding figures for previous years for a representative list of manufacturing and trading companies that have thus far published their statements, for Class 1 railways, and for reporting public utility and telephone systems.

It will be observed that profits of industrial and trading companies for the nine months' period increased 18.3% over a year ago, and 16% compared with 1926. Nineteen out of twenty-one groups showed earnings ahead of 1927, and eighteen were ahead of 1926 also.

General Motors Corporation reported earnings totaling $240,535,000 for the nine months, a gain of 24% over the 1927 period and a new high record. United States Steel Corporation

SUMMARY OF CORPORATION EARNINGS
Nine Months—000's Omitted

Number	Industry	1926	1927	1928	Per cent Change 1927-28	Per cent Change 1926-28
3	Amusements	$ 8,937	9,924	10,755	+ 8.4	+ 18.3
7	Automobiles	197,118	234,752	285,794	+ 20.2	+ 45.0
7	Auto Accessories	11,249	9,763	12,929	+ 32.5	+ 15.0
4	Building Materials	7,130	7,031	7,444	+ 5.9	+ 4.4
8	Chemicals	51,806	57,962	76,769	+ 32.5	+ 48.2
5	Coal Mining	6,569	5,602	3,981	— 28.9	— 39.4
3	Electrical	33,759	37,945	45,516	+ 19.9	+ 34.9
3	Flour and Baking	25,435	27,886	28,473	+ 2.1	+ 11.9
9	Food Products	39,756	41,645	45,094	+ 8.3	+ 13.4
12	Iron and Steel	137,906	113,798	129,777	+ 14.0	— 5.9
2	Leather	D 370	2,289	3,921	+ 71.4	+ ....
8	Machinery	16,948	16,775	18,758	+ 11.9	+ 10.7
3	Merchandise	9,553	10,404	12,668	+ 21.8	+ 32.7
4	Metal Mining	7,316	6,015	7,317	+ 21.7	+ 0.0
5	Office and Household Equipment	18,536	18,916	20,299	+ 7.3	+ 9.5
2	Paper	2,360	2,047	2,455	+ 19.9	+ 4.0
19	Petroleum	92,935	47,037	60,789	+ 29.2	— 34.6
2	Printing	2,092	2,485	2,987	+ 20.2	+ 42.9
3	Textiles	1,039	1,753	2,155	+ 22.9	+107.5
2	Tobacco	2,233	2,911	2,857	— 1.9	+ 28.0
12	Miscellaneous	29,134	31,172	32,854	+ 5.4	+ 12.8
123	Manufacturing and Trading	701,441	688,112	813,592	+ 18.3	+ 16.0
184	Railroads*	754,534	676,865	685,652	+ 1.3	— 9.1
95	Public Utilities*	458,475	498,868	551,458	+ 10.5	+ 20.2
1	American Tel. and Tel. Co.	85,226	96,061	104,315	+ 8.6	+ 22.4
403	Total	1,999,676	1,959,906	2,155,017	+ 10.0	+ 7.8

*—8 months D—Deficit

made net profits after charges of $77,087,000 which was 4% above 1927 but still 10% below 1926. Eliminating these leading organizations, combined earnings of the remaining 121 manufacturing and trading corporations making up the tabulation amount in 1928 to 18% over 1927 and to 8.2% over 1926.

Railroad earnings for the Class 1 lines are available only through the first eight months and show a gain of 1.3% over last year although they fall 9.1% below the total realized in 1926. Railroad operations for the last four months should show up even better. Ninety-five leading public utility systems continue their steady expansion in revenues and in the first eight months of the current year had a combined net income 10.5% higher than last year and 20.2% ahead of the previous year. Growth of the American Telegraph and Telephone System is maintained at a like rate. It is a most reassuring indication on the business situation to note that aggregate profits of over four hundred of the leading American industrial, merchandising, railroad and public utility companies are 10% above 1927, and 7.8% above 1926, the previous record year.

Railway Traffic and Employment

That railway traffic and employment do not appear among the indicators of record business perhaps may seem surprising, but changes in methods of distribution and manufacture are affecting the value of these figures as business measures. Due to the competition of the motor truck, the volume of freight carried by the railways is no longer so full a measure of the total transportation of goods as it was. It is therefore particularly impressive evidence of the volume of goods now moving that car loadings have recently risen far above the 1927 level and in several weeks even above that of 1926, reducing the number of surplus freight cars to the lowest point for this time of year since 1923.

The employment figures are open to question chiefly because so incomplete. They are based upon figures for employment in the leading industries for which statistics have been regularly compiled, and for several years have shown a general reduction of the number of employees in these industries, notwithstanding the fact that the volume of output has been increasing. Herewith are given the index numbers of employment computed by the Department of Labor for reporting industries for September of this year and previous years.

Average for 1923 = 100

Sept.	
1923	99.8
1924	86.7
1925	90.9
1926	92.2
1927	88.0
1928	87.3

It will be observed that the index of employment, despite the unquestioned improvement in employment conditions since last Winter, is still somewhat lower than in 1927 and is approximately 12.5 per cent below the figure reported for September, 1923. Following is a table which compares the index numbers of twelve groups of industries in September of 1928, 1927 and 1926.

	Sept. 1928	Sept. 1927	Sept. 1926
General Index	87.3	88.0	92.2
Food & Kindred Products	89.8	92.1	92.4
Textiles	80.6	86.9	84.2
Iron & Steel	85.7	84.0	92.6
Lumber	81.8	85.1	91.8
Leather	85.9	91.3	93.9
Paper & Printing	102.1	103.4	104.0
Chemicals	93.2	93.8	100.3
Stone, Clay & Glass	93.1	95.0	103.6
Metal Products, other than Iron & Steel	91.8	88.9	95.7
Vehicles for Land Transportation	92.6	81.7	91.3
Tobacco Products	84.7	87.8	85.1
Miscellaneous Industries	88.8	91.4	96.4

It is to be noted that the steel industry, despite its record nine months' production, shows employment in September this year only slightly greater than a year ago, and considerably less than two years ago. This emphasizes the fact that unemployment is by no means always due to a slackening volume of trade. Apparently an explanation is to be found in the persistent efforts of the industries to improve the methods of production and to do more business with fewer employees.

The improvement of methods should not on the whole reduce employment, and certainly does not do so in the long run, but may do so in the particular industries reported, or temporarily. If a complete picture could be had, including, for example, the number of chauffeurs, employees of garages, unclassified laborers, servants, employees of mercantile establishments, hotels, and new industries, etc., it might be found that many of the workers who have disappeared from the old industries have found other means of employment.

We have received recently a letter from the head of one of the large industries of the country, giving employment to several thousand men, in which he refers to the subject of unemployment as follows:

> We have large reconstruction programs in process of execution at the present time which will greatly increase our capacity, but I think they will not require any additional labor. In fact, I think it is more than likely that we have more labor in our employ now than we will have after these projects are completed, due to the character of the labor saving devices which we are putting into effect. We are doing in a general way only what nearly all well organized and managed manufacturing businesses are doing, and I have no doubt that these changes that are so widespread in industry today are sufficient to account for practically all the unemployment that now exists. I think industry, as a whole, is not ready for the five hour day yet, but I should not be at all surprised if in some not so far distant day, it is quite extensively adopted.

The Consumption of Electric Power

More in keeping with the other evidences of high level industrial activity are the figures on the consumption of electrical power, as reported to the Electrical World by 3600 manufacturing plants located throughout the country. During September the consumption of such energy reached the highest level ever recorded, 11.4 per cent higher than in August, 13.5 per cent higher than in September last year, and 5.4 per cent more even than the previous highest rate of activity established in February this year. Following is a table which gives the figures by groups of industries and shows gains over a year ago in all groups excepting in lumber and its products, textiles, and shipbuilding.

(1923-25 = 100)

	Sept., 1928	Sept., 1927
All Industrial Groups	134.5	118.4
Metal Industries	143.0	107.4
Rolling Mills & Steel Plants	141.2	109.6
Metal Working Plants	144.2	105.2
Leather and Its Products	106.9	105.9
Textiles	112.5	121.2
Lumber and Its Products	111.3	141.3
Automobiles, including Manufacture of Parts	161.0	109.5
Stone, Clay and Glass	152.0	118.2
Paper and Pulp	132.0	122.7
Rubber and Its Products	151.2	114.4
Chemical & Allied Products	132.0	122.6
Food & Kindred Products	142.0	127.4
Shipbuilding	72.3	106.6

Some Slow Spots

It is still true that some industries are contending with depression and that unemployment has not entirely disappeared. The coal industry, textiles, railway car and locomotive builders, and the pulp and paper industry are still struggling with adverse conditions, and there are others that might be mentioned. Individual industries, however, are bound to have their ups and downs, and in a country of such widely diversified interests as our own, where new habits of life and new processes of manufacture and distribution are constantly replacing old ones, it is not surprising that even in the best of times many individual businesses and some entire lines of industry are found to be lagging behind. The important thing is whether business as a whole is making progress, and of this there is unmistakable evidence.

Trade Generally at High Levels

Retail trade has been retarded during the past month by a long spell of unseasonably warm weather, but sales have been good when weather conditions have been favorable, and reports by department stores, chain stores, and mail order houses all showed good increases in September. There is no reason to doubt that consumer purchasing power continues at high levels.

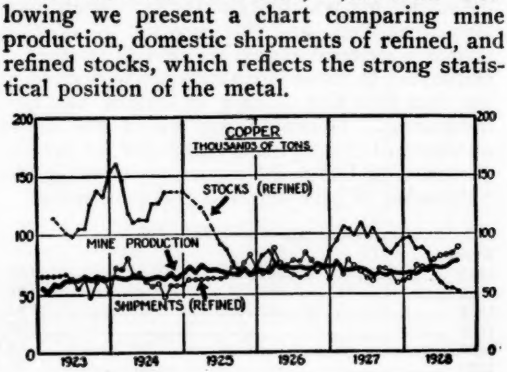
The steel industry at the close of October is operating at 86 per cent of capacity, after having touched 90 per cent earlier in the month, practically assuring a new high record of production for the year. In the Mahoning Valley of Pennsylvania all available open-hearth steel furnaces have been active for the first time in history, not even excepting war days.

Automobile and tire factories are showing a seasonal tapering off from the highest levels of the year, but both industries will undoubtedly establish new high records in 1928. Output of passenger automobiles and trucks in September amounting to 413,722 vehicles was off 47,634 cars from the record total of August, but was 59 per cent greater than in September last year and the largest for any September on record. For the nine months ended September production has already exceeded that for the entire year 1927. In its issue of October 24, Automotive Industries, one of the leading publications of the motor trade, makes the following reassuring statement on the condition of the retail market:

> A definite sign of the high rate of retail business is found in the absence of any special sales drives by factories at this season. Dealer stocks generally are low and sales are continuing in such volume that there is only minor accumulation. An actual shortage of cars in several lines is continuing. Used car demand has slowed down perceptibly in several sections, requiring special merchandising effort.

Further indications of a healthy trend in the industry appear in an increase this year in the percentage of sales for cash as against sales made on time.

Featuring the non-ferrous metals was a further rise of ¾ cents in copper prices during the month to 16 cents, the highest since 1923, and an advance of 2 cents since the year's low point in March. Consumption of copper has been steadily increasing, both in this country and abroad. High level activity in the building and automobile industries has tended to swell the domestic demand, and constantly increasing supplies are being required by the rapidly expanding electrical industry. While production is increasing it has not kept pace with demand, with the result that September witnessed further inroads on the already meagre reserves of refined metal which on October 1 were the lowest on record, 51,800 tons. Following we present a chart comparing mine production, domestic shipments of refined, and refined stocks, which reflects the strong statistical position of the metal.



Apparently believing that buyers were becoming unduly alarmed by the decreasing stocks of copper and in danger of creating a runaway market, the Copper Export Association issued a warning against buying in excess of actual requirements, stating their belief that the increased mine production would be sufficient to satisfy any reasonable demand. We quote from this statement as follows:

Unfilled orders on the books of producers and refiners, as shown by available statistics, were 353,000 tons at the end of September, as compared with 257,000 tons at the end of August, and they undoubtedly have been further increased during this month. It is believed that if buyers would confine their purchases to actual requirements the situation would be relieved by increased mine production coming upon the market.

The Cotton Industry

The cotton spinning industry has shown improvement in the last month due to the settlement of the long drawn out New Bedford strike and re-opening of the mills in that city, and to a better demand for goods generally. Firmer cotton prices are in part responsible for the increased buying, but of more fundamental importance in strengthening the present condition of the market was the drastic curtailment of mill operations during the summer which carried production to the lowest levels since 1924 and enabled the trade to reduce accumulated stocks. Though few would venture to assert that the cotton industry is yet out of the woods, a most hopeful sign is the increasing evidence of the industry's cooperation under the leadership of the Cotton Textile Institute. At the second annual meeting of the Institute in October, President Walker D. Hines asserted that marked progress had been made in the past year and a half. Greater attention by the mills to available statistics on production, stocks, and shipments, closer adjustment of output to current demand, better realization of cost factors and their relationship to prices, and a growing appreciation of sound merchandising principles have all contributed, he said, to the industry's improved condition.

In September, for the second successive month, the statistics on the production and sales of standard cotton cloths showed sales in excess of output, after a long period during which the reverse was true.

Sentiment Optimistic

With business in record volume and profits on the increase, sentiment is naturally optimistic.

At their national convention held the past month the National Association of Manufacturers reported that of some 4,000 replies to a questionnaire addressed to its members on October 1, 93% pronounced present trade conditions favorable, of whom 17% viewed them as excellent, 41.4% as good, and 34.5% as fair, with only 6.8% calling them poor. Expectations for winter trade were even more optimistic, 94% of those reporting anticipating favorable business as against only 6% looking for poor business. Approximately 68% of the replies reported increased employment compared with last Fall, 77.4% reported wages higher than a year ago, and 99% of the membership enjoyed freedom from strikes.

Further indications of confidence in the outlook appears in estimates of regional shippers' advisory boards in that fourth quarter shipments of twenty-nine principal commodities will call for 4.9% more cars than in the fourth quarter of last year. Automobile and parts shipments alone are expected to show an increase of nearly 30%. Of the twenty-nine principal commodity groups, only five—poultry and dairy products, sugar and products, livestock, vegetables, and brick and clay products—are expected to show smaller shipments than a year ago.

Following is a table comparing the estimated car requirements for the fourth quarter with actual loadings last year by twenty-nine principal classifications:

	Per Cent Change 1928 from 1927
Grain, All	+ 8.6
Flour, Meal & Other Mill Products	+ 6.7
Hay, Straw and Alfalfa	+ .5
Cotton	+20.7
Cotton Seed & Products, Except Oil	+ 8.0
Citrus Fruits	+23.5
Other Fresh Fruits	+13.6
Potatoes	— 2.9
Other Fresh Vegetables	+ .6
Live Stock	— 2.4
Poultry and Dairy Products	— 2.6
Coal and Coke	+ 4.1
Ore and Concentrates	+ 9.5
Clay, Gravel, Sand & Stone	+ 2.0
Salt	+ 3.7
Lumber and Forest Products	+ 2.3
Petroleum & Petroleum Products	+ 6.9
Sugar, Syrup, Glucose & Molasses	— 2.9
Iron and Steel	+ 7.3
Castings, Machinery & Boilers	+ 5.5
Cement	+ 3.9
Brick and Clay Products	— 2.7
Lime and Plaster	+ 2.2
Agric. Implements & Vehicles	+ 7.2
Automobiles, Trucks & Parts	+29.6
Fertilizers, All Kinds	+ 6.3
Paper, Printed Matter & Books	+ 5.8
Chemicals and Explosives	+ 8.0
Canned Goods	0.0
Total All Commodities Listed	+ 4.9

Grounds for Caution

Business in short is in exceptionally healthy condition and were it not for the possibility that speculation in stocks may lead to a reaction in the market which would affect commodity buying, and for uncertainty as to the ultimate effect on business of the continued absorption of funds in security speculation, there would be little to fear regarding the future.

While thus far there has been small evidence that current money rates have harmed business, their effect on building will be carefully watched over coming months. During July and August the figures issued by the F. W.

Dodge Corporation on new contracts awarded throughout the country appeared to indicate a downward trend and reports were current that the advance in money rates and the unfavorable conditions in the investment market were causing the postponement of many construction projects. Since then, however, the September figures have revealed an increase in new construction awards to a new high record for that month, and the weekly figures issued during October have continued to run above a year ago.

Something of the nature of the projects which are helping to sustain construction totals may be seen from a few of the larger contracts awarded in September—a $40,000,000 power development in New Hampshire, a $22,000,000 subway contract in New York, a $10,000,000 rayon plant in South Carolina, a $9,000,000 coke plant in Pennsylvania, and a $5,000,000 steel mill in Ohio. For October, two important projects announced were the new $45,000,000 Chicago Tower and Apparel Mart, construction to begin next February, and a new skyscraper for New York City which will be the tallest office building in the world.

Certainly, this does not look like a building slump. Nevertheless, it is true that the continuation of building activity will depend to a large extent upon the industry's ability to obtain funds on favorable terms, and this is particularly true of residential building, inasmuch as rents have been showing a tendency to ease for some time. On the other hand, the activity of industry creates demands for new industrial capacity, and there are large expenditures to be made in the expansion of the electric power industry. The volume of bond issues has been considerably restricted during recent months, but stock issues have increased so that the total amount of new capital available to industry has been but little below that in previous years. Moreover, many corporations are in position to finance new construction out of earnings. While the situation by no means clearly points to a material shrinkage in building, the important part which the industry plays in general business renders the possibility of such a decline something to be carefully considered.

The Trend of Wages

The announcement of the settlement of the New Bedford cotton mill strike on the basis of a 5% reduction in wages, following the reduction of wages in the soft coal fields, makes a word of comment on the general trend of wages pertinent at this time. Notwithstanding the importance of these settlements, there is no evidence of a general tendency towards a lowering of the wage level. On the contrary, the tendency, if anything, appears to be still upward.

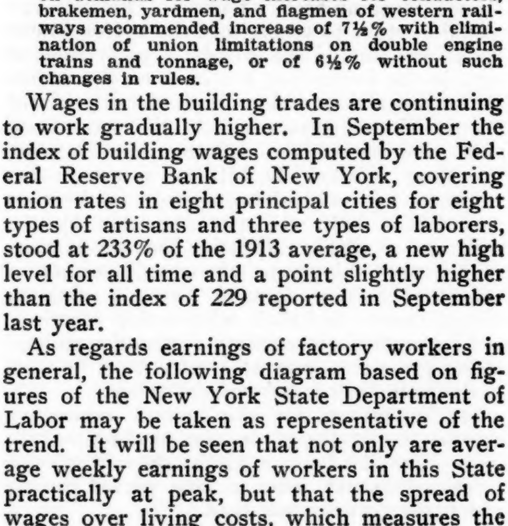
The reduction at New Bedford was the belated part of a general move towards lower wages initiated last Fall in the New England textile industry in the effort to sustain earnings in the face of declining business and increasing Southern mill competition. At that time, most of the mills outside of New Bedford put into effect wage reductions of 10% which were generally accepted by the workers. The New Bedford mills, which are engaged chiefly in the manufacture of fine goods, held to the old levels until this Spring when they were forced to fall in line with the 10% cut that precipitated the strike, since settled by a compromise on a 5% reduction. Following this action at New Bedford, mills at Fall River and various other centers have restored half of their original cut of 10%, thus bringing their rates in line with those at New Bedford.

Other wage changes announced or under consideration during the month generally involved higher pay. A few of these were as follows:

- Copper mining companies advanced mine wages 10%.
- Strike in Paterson, N. J., silk mills resulted in some settlements providing for wage increases.
- Western Union Telegraph granted pay increase aggregating $3,000,000 annually to several thousand workers.
- Emergency Board appointed by the President to pass on demands for wage increases for conductors, brakemen, yardmen, and flagmen of western railways recommended increase of 7½% with elimination of union limitations on double engine trains and tonnage, or of 6½% without such changes in rules.

Wages in the building trades are continuing to work gradually higher. In September the index of building wages computed by the Federal Reserve Bank of New York, covering union rates in eight principal cities for eight types of artisans and three types of laborers, stood at 233% of the 1913 average, a new high level for all time and a point slightly higher than the index of 229 reported in September last year.

As regards earnings of factory workers in general, the following diagram based on figures of the New York State Department of Labor may be taken as representative of the trend. It will be seen that not only are average weekly earnings of workers in this State practically at peak, but that the spread of wages over living costs, which measures the increase in real income, is also larger than at any time in the past.



Foreign Trade

The position of the United States in foreign trade is being more than maintained in 1928, according to an analysis of the figures for nine months issued by the Foreign Trade Council. In volume the exports are larger than in any corresponding period and in value larger than since 1921. The total in values is $3,563,000,000, against $3,071,000,000, of imports, giving a net balance in the nine months larger by $155,586,000 than that of the corresponding period of last year.

The most notable feature of this trade as pointed out by the Council is that approximately 73 per cent of the exports are classed as goods wholly or in part manufactured. About one-fifth of these manufactures go to Latin-America, where we are now leading all competitors in volume of sales, and selling more goods than our three principal competitors—England, France and Germany—combined. The Council attributes the continued growth of our exports of manufactures to active and systematic merchandising methods. We are in the trade for permanent business and the number of lines in which we are making headway is constantly growing.

The automotive industry is still forging ahead, increasing its percentage of the total. During the fiscal year just closed $425,000,000 worth of automotive manufactures of all kinds were exported, $61,000,000, or 16 per cent greater than for the preceding year. Industrial machinery is another line of manufactures in which exports are growing rapidly, the increase under this classification in the last fiscal year being 10 per cent and the aggregate value $210,000,000. The chief items are mining, oil, construction and metal working machinery, engines and locomotives.

We also sold abroad 25 per cent more agricultural machinery in the last fiscal year than in the year before, amounting to $102,000,000. A once minor item, that of machine-made office specialties such as typewriters, adding machines, cash registers, and the like, gained 20 per cent in value of export trade during the fiscal year and established a sales total of over $44,000,000, making a place for the first time as one of our twenty leading exports.

Electrical machinery and apparatus of all kinds represents another substantial advance in our sales abroad during recent months. Electrical manufacturers sold abroad $87,000,000 worth of their products during the past fiscal year, an increase of 5 per cent over the year preceding.

In cotton goods, competition is intense in all world markets, but our sales in the fiscal year aggregated $135,000,000, an increase of 9 per cent over the preceding year.

Our trade with Canada is growing constantly, as is natural in view of the position of the two countries as neighbors, and the similarity of the habits and tastes of the people. The United States leads Great Britain in exports to Canada, notwithstanding the preferential tariff in favor of the mother country.

There have been but few increases recently in our imports of manufactured goods. The principal advances have been in paper manufactures, largely newsprint, of which we imported about $136,000,000 worth in the fiscal year, almost doubling the amount of six years ago, and wool manufactures of which we imported $82,000,000, 10 per cent more than the previous year and also about double the value of the imports six years ago. A decided increase is shown also in burlaps, whose imports last year amounted to $76,000,000 and are now more than $35,000,000 greater than six years ago. Our imported cotton manufactures have dropped off from about $88,000,000 six years ago to $68,000,000 in the past fiscal year and our imported silk manufactures have remained about stationary during this period at $45,000,000.

Our imports of manufactured goods have increased by $680,000,000 during the past six years, while the increase in our exports of manufactures is almost 50 per cent greater than that amount or $985,000,000.

Money and Banking

In view of the rising trend of business activity in recent months, and the active demand existing in the collateral loan market, the requirements for Reserve bank credit have not been as strong as might be expected. The average amount of Reserve credit outstanding during each of the last three months has been as follows, to-wit:

August	$1,431,000,000
September	1,511,000,000
October	1,557,000,000

The figures for the four October statements are as follows:

October 3	$1,571,000,000
October 10	1,556,000,000
October 17	1,552,000,000
October 24	1,548,000,000

The highest figures of this Fall season to date are for October 3, and these are the highest for the year, with the exception of July 3, when the heavy mid-year settlements caused an exceptional demand.

It should be added, however, that in the last two months reporting member banks have shown an increase of approximately $100,000,000 in unsecured loans, generally considered as representative of commercial borrowing, which indicates an increase of perhaps $250,000,000 in all member and non-member banks.

From the average of June to the average of October. these unsecured loans in reporting

member banks are up about $250,000,000, while loans on stocks and bonds are down about $126,000,000.

The net increase of Reserve credit in the last three months has been practically all by means of acceptances, open market purchases of this character having risen from $166,000,000 on August 1, to $401,000,000 on October 24, while rediscounts and advances to member banks have declined from $1,085,000,000 to $912,000,000. Something similar to this occurred in the corresponding period of last year, when rediscounts declined from $445,000,000 to $402,000,000 while Reserve holdings of acceptances increased from $178,000,000 to $301,000,000.

Stock Exchange money has been slightly easier in the past month than in September. Fluctuations have been pronounced in the call market, comparatively small changes in supply having marked influence upon rates, and rate changes a prompt influence upon supply. During the month, the renewal rate was fixed as low as 6 per cent on only two days, at 6½ on eight days, at 7 on three days, 7½ on seven days, and 8 per cent on two days, the latter being the 2nd and 3rd, when quarterly payments were an important factor. Time money on collateral was distinctly easier after the 10th, ruling at 7 per cent for 60 and 90 day loans, and at 6¾ to 7 for four, five and six months. Commercial paper was unchanged at 5½ to 5¾ per cent. No change occurred in Federal Reserve discount rates, all the Banks maintaining the 5 per cent except the Minneapolis, Kansas City, Dallas and San Francisco institutions, which still have the 4½ per cent rate.

In this connection it is interesting to note the extent to which the decline of rediscounts from August 29 to October 24 was participated in by the several Reserve banks. The following table shows the holdings of discounted bills on the two dates:

ALL DISCOUNTED BILLS

	August 29	October 24
Boston	$57,715,000	$32,999,000
New York	292,522,000	247,253,000
Philadelphia	105,187,000	78,466,000
Cleveland	81,645,000	77,026,000
Richmond	60,012,000	46,636,000
Atlanta	76,933,000	76,875,000
Chicago	137,613,000	143,517,000
St. Louis	65,385,000	46,863,000
Minneapolis	19,038,000	20,561,000
Kansas City	26,714,000	39,432,000
Dallas	30,468,000	24,840,000
San Francisco	85,541,000	77,459,000
Total	$1,038,773,000	$911,927,000

It will be seen that the decline was general, excepting several agricultural districts. The Kansas City district moved against the trend in the most pronounced manner, owing to crop financing, and a further increase is reported as occurring in the past week, which will appear in the next statement.

Money in Circulation

It is probable that the crest of the borrowing demand for this season has passed, but the demand for currency will not reach the highest point until the holiday season. The fluctuations in the volume of currency in circulation is an annual phenomenon, with the low point in July and the rise to the holidays varying in the last five years from $300,000,000 to $437,000,000. The low point in 1928, according to Treasury statements was in the week ended July 28, 1928, when the average volume was $4,696,000,000. In the week ended August 25, the average was $4,752,000,000, and in the week ended September 29, $4,806,000,000. The circulation statement for October has not been issued at this writing, but it is expected to show a substantial increase over September.

It is necessary to take account of changes in the volume of currency outstanding in calculating the lending capacity of the banks, and in relation to the outstanding volume of Reserve credit, as when member banks pay out currency they deplete their reserves and may be compelled to apply for rediscounts.

Brokers' Loans

Under the influence of continuing activity in the stock market, brokers' loans, as reported weekly by the Federal Reserve Bank of New York, have advanced into new ground in every week of the last month. The figures as of October 24, October 3 and June 6 (previous high point) are given below with the usual division into three classes:

	October 24	October 3	June 6
Loans for own account	$957,397,000	$930,000,000	$1,167,000,000
For out-of-town banks	1,736,811,000	1,682,000,000	1,642,000,000
For others	2,078,085,000	1,958,000,000	1,754,000,000
Total	$4,772,293,000	$4,570,000,000	$4,563,000,000

The monthly report of the Stock Exchange upon the total borrowings of its members shows an increase of $462,200,000 in the month of September, which compares with an increase of $290,000,000 shown by the Federal Reserve reports between August 29 and September 26. The latter include only lendings by and through member banks of New York City, while the Exchange reports include borrowings from all sources. From the high figures of last June the Federal Reserve statement shows an increase of $209,000,000, and the Exchange figures an increase of $239,000,000. The Exchange figures would be considerably higher if brought up to the date of the bank statement. Comparing them as of September 30 and October 3, the Exchange figures had gained in the recovery since June about $232,000,000 on the Reserve figures.

Sources of New Capital

Money has been tight all of the time, as interest rates have attested, and an interesting question is asked as to the sources of the additional lending power represented by the increase of these loans. It must have come either by an increase of bank credit, new capital savings, or a shift of credit from other uses. No change of importance in the gold stock occurred from June to October, and the only other means by which bank reserves may be increased is by release of Reserve credit, and return of currency from circulation. The average amount of Reserve credit outstanding in the form of discounts and advances to members, open market bills and government security holdings, in June was $1,468,000,000, in September $1,511,000,000 and in October $1,557,000,000. This shows an increase of something less than $100,000,000 and was practically all required to make good the loss of reserves in the same time through the increase of currency in circulation.

From this it appears that the power of the member banks to lend or invest apparently is little changed from what it was last June, except as changes in deposit holdings may affect reserve requirements. Member banks classified by the Federal Reserve Bulletin as "outside of leading cities" have actually gained in deposits while those in "leading cities" have lost, and demand deposits have declined more than time deposits. Both of these changes would tend to increase lending power.

Figures are not available for all bank loans since June 30, but are available for the reporting member banks, whose loans on June 30 constituted about 62 per cent of the total loans of member banks and 40 per cent of all banks in the country. These show an increase of about $100,000,000 from the high point in June to the middle of October, collateral loans being down and other loans up. Assuming a corresponding increase in all member and non-member banks, the aggregate increase of loans would be about $250,000,000.

Sale of Bank Investments

On the other hand, investments in reporting member banks in June averaged $6,670,000,000 and in October $6,411,000,000, or a decline of approximately $260,000,000. The June 30 report of the Comptroller of the Currency upon all banks in the country shows non-member banks to have been holding about the same proportion of investments to all assets as the member banks. If all banks sold proportionately with the reporting members the total of sales would be approximately $650,000,000.

The increase in brokers' loans made by other lenders than banks, as reported by the Reserve bank, from June 6 to October 24, was $324,000,000. This is known to have come largely from banks and to have curtailed their lending, but in the five months intervening capital has been accumulating and such accumulations presumably have been an important factor in the increase, for the current rates of interest would tend to attract capital. Moreover, the normal growth of bank deposits would tend to restore the lending power of the banks.

Apparently the sale of investments has been the principal factor in the ability of member and non-member banks to overcome the loss of lending power referred to above, and actually increase the aggregate of their loans since June. Here again savings are an important factor, for these securities, as sold, must have been taken up with new capital, or bank loans would have increased far more than has been the case.

The Outlook for Money

There is nothing in this review of developments since June that holds out a promise of easier credit conditions while the stock market remains in its present optimistic mood. On the demand side it is the dominant factor in the situation. Commercial demands are tending to fall off as the proceeds of the crops become available for debt payments, but the outflow of currency presently will send the member banks to the Reserve institutions to replenish their reserves. The decline of rediscounts in October is evidence of the inclination of member banks to retire their obligations of this character, regardless of high rates on ineligible paper.

The most important factor on the supply side of course is Federal Reserve policy, and no sign of a change in this has appeared. Member bank reserves, which are the basis of lending or investing power and which are largely under the influence of Reserve policy, averaged $2,325,000,000 in September, 1927, $2,323,000,000 in September, 1928, and $2,337,115,000 in October, 1928, notwithstanding the fact that in the meantime the country's stock of gold had diminished by approximately $450,000,000. This loss of reserve money has been made up in part by a reduction of currency in circulation (about $100,000,000) and for the remainder by Reserve policy in releasing Reserve credit in the sum of approximately $350,000,000. Thus the Reserve situation is practically the same now as a year ago, but, chiefly owing to the expansion of brokers' loans, interest rates are materially higher. There is, however, no lack of credit for commercial purposes at rates no higher than usual in times of general business activity, or than rates for such purposes in other countries.

There never has been any reason to suppose that the Reserve authorities were planning to break the stock market. A fair interpretation of their policy is that it seeks to maintain a

stable supply of credit for the uses contemplated by the Reserve act, but does not look with favor upon credit expansion when rediscounts are already above what is regarded as the normal aggregate required by temporary accommodations.

Credit Expansion Depends on Reserves

The only prospect for an increase of the lending power of the banks is by gold imports, and despite the attraction of high interest rates over several months, receipts as yet have been small. The sterling rate hovers close to the gold point, but a trifle too high for profitable shipments in volume. One plausible explanation is that the important shipments of the metal from London to Berlin have had a bearing adverse to a movement to New York. There is reason for believing that credits in New York have been transferred to London by the purchase of sterling exchange, and the latter utilized for the purchase of gold destined for Berlin. This would amount to a transfer of credit from New York to Berlin, at the same time satisfying the demand in London for exchange on New York. It is assumed that the Bank of England will raise its discount rate in case an important movement to New York shall develop.

The experience of recent months should convince everybody that a fundamental change in the New York money market has resulted from the cessation of gold imports. Bank credit cannot be expanded without increasing reserves. Under the inducement of high interest rates some expansion of credit has been accomplished by the conversion of bank loans into private loans, which decrease reserve requirements, but this is a slight substitute for the increase of lending capacity in the banks which has been going on over the last seven years on the basis of their increasing reserves; moreover, it is dependent upon a continuance of high interest rates, which grow more burdensome as the market advances.

The most important relief has come by the sale of bank investments, which, however, does not bring any new capital into the general situation, and in effect is a competition of old securities with new for current capital accumulations.

Undoubtedly current accumulations are large and have been over the last several years, but heretofore all of the new accumulations, plus the new supplies of bank credit resulting from the increasing gold reserves, have been available for meeting increasing market demands. Now, not only are the new supplies of bank credit missing, but the available supply of new capital is impaired by the back flow of old securities to the market. For years the banks have been steadily accumulating investments, the increase of their holdings in the year ended June 30, 1928, having been $1,399,000,000. Obviously it is an important change to have them turn sellers, if the movement is to be long sustained.

The Bond Market

A somewhat easier tone in the collateral loan markets is apparently at the bottom of the change for the better in bonds. In contrast to conditions prevailing a short time ago when almost any demand could be met on short notice, any substantial market order now usually necessitates active bidding. New offerings are moving satisfactorily and because of the reduced volume of underwritings, dealers' stocks have not had a chance to accumulate. Reports from a few of the leading underwriters indicate that new financing is finding its way to the market just as rapidly as it can be negotiated and that few issues are being held back by dealers awaiting further market improvement. It is quite possible of course that the borrowing urge will be stimulated by any substantial improvement in bond prices. While there has been some improvement in the price level from the low point registered during mid-summer, prices still remain attractive especially in view of the fact that present levels are due to changes in money rates and not to weakening in security. There appears to be fair agreement that interest rates over a long range will work towards lower levels. Certainly the present bond market offers a real opportunity to the investor who is looking forward to income over a period of years.

United States Treasury Operations

A final move in clearing up the Third Liberty Loan was taken on October 8th with the offering of $300,000,000, or thereabouts, of 11-months U. S. Treasury Certificates of Indebtedness bearing 4¾ per cent interest. The terms of the offering were more attractive than anticipated, although the amount was slightly larger than had been generally predicted. Any concern over the 4¾ per cent rate, which was higher by ¼ of 1 per cent than the last previous Treasury offering and the highest since the tight credit period of 1920-1921, was relieved by intimations by the Treasury Department that such rate should not be considered as an unfavorable forecast for bonds generally but as simply the result of pricing the Certificates to the prevailing market.

The high coupon rate made the issue particularly attractive to banking institutions for their secondary reserves. Applications were received totaling $838,000,000. Banks subscribing to the issue and obtaining allotments do not of course pay for the bonds at once but simply credit the Treasury with deposit balances. Inasmuch as these Government de-

posits will be gradually withdrawn and receive a relatively low rate of interest, they are a source of real banking profit at prevailing money rates.

Municipal Market Better

The municipal bond market is in excellent condition. For the first time in several months there is evidence of real buying demand among institutional and private investors. Dealers' stocks are unusually low and a fair increase in the volume of new municipal financing apparently will be required to keep pace with the growing investor demand. While it is true that some municipalities have delayed their more urgent borrowings awaiting an improvement in the general situation, the visible supply of new issues is not now sufficiently large to suggest that the market will have any difficulty in absorbing it. In view of the fact that municipal bond prices have already recovered part of their earlier decline, there has been some surprise that new issues have not been coming along in greater volume. It must be remembered that this is a pre-election period during which local officials are busy cultivating favor with the voters. It is a season when bonds are being authorized rather than sold. The decision of voters on bonding programs submitted at the November general elections will be a fair indication of what to look for in the way of new issues for some months to come. Authorizations will no doubt run into large figures but such approval does not mean immediate issuance because so many programs cover a considerable period of time and the total amounts authorized will be split up into smaller blocks to be offered for sale only as funds are needed. Several states will ask authorization on road building projects which will call for spreading of the expenditure over a number of years.

Outstanding among new municipal offerings during the month was a $10,000,000 issue of City of St. Louis, Missouri, 4¼ per cent bonds due serially November 1, 1933-48 inclusive and offered at prices to yield around 4.10 per cent. These bonds are issued for public buildings and improvements and are part of a $75,000,000 bonding program authorized by the voters in 1923 and now about half completed.

Convertibles

Outstanding strength in many representative common shares on the New York Stock Exchange gave impetus to the upward movement in Convertible and Warrant bonds whose markets are controlled by the position of the stocks into which they are convertible. Among the coppers Andes Convertible 7s and Anaconda Convertible 7s both continued on the upgrade, Andes 7's reaching 169⅝ coincident with the public offering of the stock at $37 per share, and Anaconda 7's moving into new high territory around 148 in sympathy with the upward movement in Anaconda common. Conversion of the third $10,000,000 block of Anaconda 7s has now been completed and current conversions are on the basis of $62 per common share. Barnsdall Corporation 6s with warrants attached reached a new high and at present are selling around 134. A spectacular performance among the convertible utilities has been the Brooklyn Union Gas 5½s, which are currently quoted at around 310. These bonds, issued several years ago, carry the privilege of conversion into common at 50 after January 1st, 1929. The stock around 160 is 110 points above the conversion price, which naturally accounts for the enormous premium. The market for the bonds is still somewhat behind the stock, due no doubt to the deferred conversion privilege.

Convertible and warrant attached bonds have been meeting considerable favor in recent years because of the opportunities such securities provide for sharing on an equity basis in the future prosperity of the business. The attractive feature of such securities from an investment standpoint is that they usually begin their history as pure investments whose markets are unaffected by minor fluctuations in earnings. When and if the common stock equities improve, the bonds furnish a medium for sharing in the improvement. After such bonds sell on a conversion rather than an investment basis, their price movements are governed by the movement of the stock and recessions may be quite as violent as advances. Once the conversion feature has carried the price of a convertible bond well above an investment basis it may be to the investor's advantage from an income standpoint to convert into common stock, particularly so if this stock has achieved a good investment rating.

Recent Shrinkage in Foreign Offerings

The substantial decrease in new foreign offerings during the third quarter of this year, following the record-breaking totals for the first half of the year, suggests the possibility that the shrinkage may be due not alone to higher money rates in the American market, but also to improved financial conditions in the foreign field. Many countries, which during the earlier post-war period had to rely largely upon outside sources for their urgent capital needs, are becoming able to satisfy a larger part of their present requirements from within. According to reports of the Commerce Department, foreign borrowings in this market reached the record-breaking total of over $1,000,000,000 during the first half of the year. During the July-September quarter of 1928, par value of foreign offerings

amounted to $155,103,500, compared with $266,611,645 for the same quarter of 1927. Total new capital, par value minus refunding, taken by Americans during the quarter was $139,000,000 compared with $235,000,000 for the corresponding period of last year, a net decrease of $96,000,000. A comparable decrease occurred in the volume offered through the London market.

Increasing activity and rising prices in European bonds, particularly Italian industrial issues, were features of the bond market late in the month. This movement is apparently a reflection of the growing industrial activity and prospects of expanding trade. Fiat Corporation 7 per cent Bonds with warrants reached 142, against the low for the year of 100½. Pirelli Company 7's also were strong; these bonds are convertible into stock at $40 a share up to April 30, 1929. An offering of $25,000,000 Peruvian 6 per cent Bonds, due 1961, at 91 and interest to yield 6.85 per cent, drew considerable attention to the South American group. All Peruvian and Argentine issues were particularly active. The Republic of Chile 6 per cent issue due 1961 brought out early in September was quoted during the month above the offering price.

The International Balance Sheet

The Department of Commerce has issued its review of international payments to and from the United States in the calendar year 1927. This annual inquiry and summary is being systematized and developed in a manner which gives it increasing interest and authority, but even yet the figures must be taken with considerable allowance for the fact that exact information is not available. One of the principal features is the discussion of American investments abroad and foreign investments in this country. In view of the fact that outside of Canada, Cuba and Mexico, our investments abroad were of small importance before the war, it might be thought to be a not very difficult task to compute the movements of capital and amount of annual remittances since. As to public offerings of new issues of stocks and bonds, this is true, but the private transfers back and forth are very large in the aggregate and not easily reckoned.

The condensed summary of payments is given below.

According to this account the net sum of our foreign investments during the year, after allowance for commissions, discounts and refunding operations, was $1,648,000,000. Against this is reckoned sinking fund payments and redemptions upon previous loans and repurchases by foreigners of foreign issues in this market. Furthermore, account must be taken of foreign purchases and sales of American securities in this market. The net result of all such transactions is calculated to be a net gain in our investment position of $671,000,000.

How did we settle for this acquisition of foreign investments? The answer of the statement is that in regular trade and exchange of services, including interest payments, tourist expenditures, war debt receipts, immigrant

OUR CASH DEALINGS WITH FOREIGNERS DURING 1927: A CONDENSED BALANCE OF PAYMENTS
(In millions of dollars)

Classes of transactions	Cash claims due from foreigners	Cash claims due to foreigners	Differences
Commodity Transactions			
Merchandise, silver, etc. (adjusted)	5,037	4,489	+548
Miscellaneous Transactions			
Freight, ocean, Great Lakes, and land transit	140	172	—32
Tourist expenditures	153	770	—617
Ocean-borne passenger traffic	89	....	+89
Interest on all private foreign investments (long and short term)	795	281	+514
War-debt receipts	206	....	+206
Government transactions (except war-debt receipts)	57	86	—29
Immigrant remittances	35	241	—206
Charitable and missionary contributions	....	43	—43
Other items (insurance, motion-picture royalties, cable charges, patents, Canadian electric power, etc.)	199	130	+69
	6,711	6,212	+499
Private Loans, Investments, and Deposits			
New American investment abroad (net cash)	....	1,648	—1,648
"Backwash"* on our previous American investments abroad	767	....	+767
New foreign investments in United States	919	....	+919
"Backwash" on previous foreign investments here	....	709	—709
Increase or decrease in net debt of American banks to foreigners	(?)	(?)	....
	1,686	2,357	—671
Balancing Items			
Gold shipped or earmarked	390	224	+166
Discrepancy due to inaccurate figures	....	....	—6

* This term includes bond-redemption and sinking-fund payments; also resales to foreigners of our previous holdings of foreign securities and properties.

remittances and all the various items of current intercourse, we had a favorable balance of $499,000,000, and our exports of gold exceeded our imports by $166,000,000, which sums aggregate $665,000,000, or within $6,000,000 of our net gain on capital account.

This leaves changes in bank balances out of the account, and it is understood that the attempt to gather this information was abandoned for the year. It is valuable principally as a check upon the calculation of payments. The approximate balance shown above would indicate that the net change in bank balances was small.

The report estimates the total of foreign investments in the United States at the end of 1927 at $3,700,000,000. This excludes the holdings of aliens who are permanent residents of the United States and foreign deposits in American banks. At that date international bankers in the United States held $2,212,000,000 of American securities for account of foreigners.

Thus, leaving out gold movements to and from, it appears that our net gain in the exchanges was enough to cover an increase of not quite $500,000,000 in foreign investments. Tourists' expenditures and immigrants' remittances more than covered all payments running to the United States on account of interest dividends and indebtedness to the United States Government. It may be added that since the report for 1927 was issued the Department has given out a tentative estimate of expenditures of American tourists abroad in 1928, making it $900,000,000, against $770,000,000 in 1927. Aside from loans they constitute much the largest item in the international balance sheet.

Great Britain's Exports of Capital

We gave a few months ago figures from the London Economist which seemed to show that in the seven years 1920-1926 the net outflow of capital from the United States was considerably less than the net outflow from Great Britain. The total of foreign flotations in the United States had been much larger than such flotations in Great Britain, but when all trading in American, British and other securities was taken into account the net gain of the United States as a creditor was less than that of Great Britain. In its issue for June 2, 1928, the "Economist" gave another set of figures, this time for the years 1922-27, which makes a similar showing, with comments as follow below. The British figures are Government estimates. The two columns of United States figures are from our Department of Commerce calculations, the second column being increased by giving it the benefit of all discrepancies. The "Economist" says:

In the following table, giving the results for six years past, we have added to the figures from Mr. Hoover's Bulletin a column of amended figures, in which the full total of "errors and omissions" has been assumed to be an addition to the balance on "current items account," and therefore an addition to the net export of capital. Even on this extreme basis the American outflow does not equal that of Great Britain. Comparison of either column with the figures for Great Britain—which in this case have been converted at the precise average current rate of exchange of each year—amply bears out in fact the general thesis we have put forward:

NET IMPORT (—) OR EXPORT (+) OF CAPITAL FROM THE UNITED STATES & GREAT BRITAIN

	United States			
	Mr. Hoover's Return.	Adjusted Figures	Great Britain.	
Year	Mln. $	Mln. $	Mln. £	Mln. $
1922	+ 130	+ 263	+ 154	+ 681
1923	— 228	— 112	+ 153	+ 699
1924	+ 310	+ 306	+ 86	+ 390
1925	+ 429	+ 493	+ 54	+ 261
1926	+ 13	+ 163	— 7	— 34
1927	+ 671	+ 671	+ 96	+ 466
	+1,325	+1,784	+ 536	+2,463

Our readers will recall that the enquiries recently carried out by Sir Robert Kindersley indicate that the Board of Trade estimate of our income from abroad in 1927 understates the position by at least £10 millions.

None of these figures are of very great accuracy, and they cannot be strained too far. But they are not inherently improbable. The great fact of recent years is not that American capital, unable to find a use at home, is inundating foreign countries, but that the outflow has now reached such dimensions that it equals and even appreciably exceeds the inflow of capital from foreign countries which was stopped by the war, but has now revived in very considerable volume. The fact is that America's trade balance shows no sign of producing a very large export surplus the proceeds of which she can lend abroad. She can only swell her foreign issues by lending money that is lent to her or by shipping gold.

The table is a comparison of the official American and British figures, and we are not prepared to question the showing or conclusions drawn from it. The important point is that there has not been so large an outflow of capital from this country as the list of foreign flotations in this market would indicate. In the onward march of what some persons have called Economic Imperialism, Britain apparently is still leading.

The British Debt to the United States

This comparative showing of the capital exports of the two countries seems to have bearing upon the subject of the debt of the British Government to the United States Government, and suggests a question as to how much difference the payments thereon really make in the prosperity or welfare of either country. Mr. John Maynard Keynes, the eminent British specialist upon international debts and capital movements, author of "The Economic Consequences of the Peace," has written an article in which he sets forth by several striking illustrations the hardship which he says will be imposed upon Great Britain if that country is obliged to carry out the settlement agreed upon. He says in part:

We shall be paying to the United States each year for sixty years a sum equivalent to two-thirds of the cost of our Navy, a sum nearly equal to our State

expenditure on Education, a sum which exceeds the total burden of our pre-war debt. Looked at from another standpoint, it represents more than the total normal profits of our coal mines and our mercantile marine added together. With these sums we could endow and splendidly house every month for sixty years one new university, one new hospital, one new institute of research, &c., &c. With an equal sacrifice over an equal period we could abolish slums and re-house in comfort the half of our population which is now inadequately sheltered.

The people of this country would not like to think themselves responsible for the slums or bad housing conditions of the English cities, or for any real lack of hospitals, universities, or research institutes, and is there any reason for supposing that if the debt was cancelled the sums thus saved would be devoted to such purposes? Is it not more probable that the foreign loans of Great Britain would be correspondingly increased and those of the United States correspondingly restricted?

The Position of Creditor Countries

Great Britain and the United States are the most important creditor nations, and it was inevitable that capital should flow from both in large sums in the world emergency. In view of the delicate equilibrium in international financial relations it is not a violent assumption that up to date the chief effect of Great Britain's obligations to the United States has been that the former country has invested less capital abroad and the United States more than otherwise would have been the case. And that assumption holds good for the future. The two countries are the alternative markets for most of the international security offerings.

It is characteristic of creditor countries that unless calamity befalls them they do not cease to be creditor countries. The flow of capital continues to be away from them, to countries less abundantly supplied, where the needs for capital are greater and the returns from its use are higher. The natural result of this is that their foreign investments are not in the aggregate withdrawn or reduced. On the contrary, such investments tend to increase, for the disposition of the accruing returns is likely to be controlled by the same considerations which prompted the original investment. Capital does not normally flow from countries in which the supply is comparatively small to countries in which it is comparatively abundant. The foreign investments of Great Britain have been steadily increasing throughout her history, excepting when she was engaged in war.

Productive Capital a Common Fund

The benefits of the international flow of capital are widespread. The backward regions are brought forward, the aggregate of world production is enlarged in the most economical manner, the trade of the world is increased and the general welfare is advanced, with the benefits of such development widely diffused. It is evident that Great Britain, as a great trading nation, has benefited by the foreign loans made by the United States as well as by those made by herself. It is true that excepting loans made for the stabilization of currencies, the proceeds of these loans have been mainly expended here, but as a rule for products which could be obtained only here. There has been no restriction upon their expenditure elsewhere, and in a number of instances large borrowings by the British Dominions have afforded direct relief to the London market. The gold supplied for the reorganization of currency systems almost of necessity was obtained here, and the benefits of the stabilization of the exchanges have been shared alike by all trading countries. Obviously the outflow of capital from here has had stabilizing and stimulating effects upon industry and trade everywhere.

We are simply emphasizing that the important thing about all these international investments is not who owns them, but the support they have given to the world situation. Industry and trade are the vital factors in economic life; if they prosper, if production grows, trade increases, and the purchasing power of populations becomes greater, the debtor and creditor relations will be of comparatively small importance. The interest or profits of capital are the smallest factors in industry, insignificant in comparison with the aggregate of wages or business turnover.

The international distribution of capital is a normal and permanent movement, inevitably increasing with the improvement of communications and the growing volume of trade and travel. It is in the interest of civilization, of good understanding and the maintenance of peaceful and mutually advantageous relations.

Apparently trade balances and income from investments have become subordinate factors in the international balance of payments, opportunities for advantageous employment of capital being the decisive influence. The financial centers of the world, and particularly London and New York, are so closely related that demands upon one are quickly felt in the others, and any important movement of capital between them sets in motion compensating movements, which tend to maintain the general equilibrium.

The Movement of Capital into Germany

This is strikingly illustrated by the movement of capital into Germany since the establishment of a stable monetary system. The report of S. Parker Gilbert, Agent General of Reparations, dated June 7, 1928, gives the total of German capital issues in foreign money markets from the beginning of 1925 to May 31, 1928 as 5,354,400,000 reichsmarks. This does not include the loan of 960,000,000 reichsmarks

issued under the Dawes plan to provide capital for the Reichsbank, nor does it include foreign purchases of securities in the German market or private business investments. Furthermore, it does not include the large body of short loans by foreigners in the German money market. Mr. Gilbert quotes the Minister of Economics as having estimated this total in October, 1927, at 3,600,000,000 reichsmarks. It would appear, therefore, that the movement of foreign capital into Germany in the period named has amounted to over 10,000,000,000 reichsmarks, or $2,400,000,000. Part of the proceeds of this borrowing has been taken into Germany in the form of gold, increasing the Reichsbank reserve, part has been used to settle adverse trade balances and part has been used in reparation payments.

The gold movement has been large in the present year, and the subject of frequent comment in European money markets. The following is from the financial columns of the London Times of September 28, 1928. Where mention is made of "millions" the reference of course is to pounds sterling.

A further £818,000 in bar gold was withdrawn from the Bank of England yesterday for shipment—it is believed—to Germany. In the last few weeks Germany has taken from this market several millions in gold, and as the Berlin exchange still remains strongly in favour of the mark there is no sign of the movement coming to an end. In spite of the virtual suspension of long-term borrowing in America and elsewhere, foreign funds continue to flow into Germany, the reason being that money can be more profitably employed there than anywhere else. Monthly loans command between 8 and 9 per cent, while industry usually has to pay 10 per cent and more for longer credits. These high rates are due to the continued scarcity of liquid capital in Germany. This is partly a consequence of the great inflation during and after the War, which caused the disappearance of vast amounts of liquid German funds, and partly the result of reparation payments. France is believed to have invested large sums in Germany since the stabilization of the franc, and to have reduced her funds in America, this latter operation having helped to prevent a too rapid weakening of the American exchange for sterling. Germany's increasingly heavy reparation liabilities, which this year amount to £125,000,000, may seem to give an air of unreality to her gold imports, but the discharge of these obligations renders foreign borrowing necessary in two way—first, to make sufficient remittances possible, and, secondly, to fill the gap in the supply of working capital caused by the reparation payments. As the gap does not diminish, it seems likely that money rates will remain high in Germany for some time to come. She may therefore continue to be a very important factor in the international money market. Even the suggested commercialization of the reparation debt would not in itself affect the capital situation in Germany, since the interest on the loans raised to discharge reparation would still have to be remitted abroad, and thereby check the accumulation of capital in the country.

It is evident that Germany would have been a borrower abroad even if there had been no reparation payments to make, and the sum of the borrowings and foreign investments in the country probably is double the amount of reparation payments made in the four years.

An erroneous impression might be given by this statement if it was not accompanied by the following paragraph from the Gilbert report already quoted:

"Two things among others are to be observed in connection with the large debt which Germany has incurred abroad: first, that foreign loans, by their volume and frequency, have tended to stimulate economic expansion; and, second, that the general formation of capital within Germany has been larger than the accumulation of foreign debt."

This statement shows that it is erroneous to draw the conclusion that Germany is borrowing from Peter to pay Paul and making no headway economically. The purpose of this discussion, however, is simply to show the readiness with which capital flows from country to country in response to the conditions of supply and demand. It is going into Germany because of scarcity there and going from countries which are receiving reparations. Evidently the creditor countries are not gaining or Germany losing the full amount of capital represented by the reparation payments. So far as immediate supplies of capital are concerned the burden has been mainly shifted to the United States, the country which by reason of its wealth-producing capacity and abnormal holdings of gold has been the best able to carry it.

What would the situation have been if there had been no undertaking to pay reparations? In that case the flow of outside capital into Germany would have been smaller and presumably more would have gone to Belgium, France and Italy. Germany probably would have reached the creditor position earlier than she will with reparations to pay, and then would have begun to pour capital into foreign investments. France is now in a creditor position and lending even to her debtor on reparations account. The liquidity of the world's capital supply is the outstanding factor in the situation.

The lesson of all this seems to be clear. The economic law promptly sets about overcoming any arbitrary or abnormal change in economic relations, and induces the transfer of capital from country to country for this purpose. Although the borrowing countries pay interest and agree to return the principal this does not mean that the lending countries do not share in the war losses. The latter are interested in restoring the world equilibrium, but if there had been no war the equilibrium would have been maintained, with a higher level of wealth and welfare everywhere. All countries share in the war losses, the burdens which they have created being automatically distributed to all parts of the world's economic system, as the strain upon a bridge is distributed to every rod and girder in the structure.

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